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Expatriate Return on Investment: a Definition and Antecedents

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Introduction

The costs associated with a long-term international assignment, defined as the relocation of an employee abroad by a firm for a year or more (Cendant, 2002, 2004; Boyacigiller, 2000; Kobrin, 1988; KPMG International, 2003; Mercer Human Resource Consulting, 2003), are high. Some evidence suggests that the costs exceed $1 million per assignee and per assignment, and that the total cost to US multinational corporations (MNCs) is about $75 billion a year (Copeland and Griggs, 1985; Sheridan, 1998). In spite of the costs, a recent industry survey indicated that it is possible that long-term international assignments provide little return on investment (ROI) (GMAC/NFTC/SHRM 2002 survey). As Black, Gregersen, Mendenhall and Stroh (1999: 2) said:

> An international assignment is the single most powerful experience shaping the perspective and capabilities of effective global leaders. It also happens to be the single most expensive per-person investment that a company makes in globalizing their people. It is unfortunate that most firms are getting anemic returns on this substantial investment.

Understanding how to obtain a return on investment from long-term assignments is important. The reporting of expatriate assignment failures, with 44 per cent of MNCs reporting failures in the Asia Pacific region and 63 per cent in Europe (Cendant, 2001), seems to indicate that the direct and non-direct costs associated with expatriation are substantial. Yet industry surveys show that expatriate ROI is not only poorly calculated amongst MNCs but is also not widely used as a tool to reduce expatriate costs (GMAC/NFTC/SHRM 2002 survey). For example, only 30 per cent of respondents in the GMAC/NFTC/SHRM 2002 survey rated their expatriate ROI as 'good' or 'excellent', with only 9 per cent indicating they had specific programmes in place to improve it. In fact, 70 per cent of the respondents rated their ROI as average, fair, or poor. Other industry surveys show that, to avoid the costs of long-term assignments, MNCs use a range of alternatives including virtual assignments and teleworking, short-term assignments, business trips, cross-border commuting, frequent flying, and host country nationals (HCNs) (Cendant, 2002; GMAC/NFTC/SHRM 2002 survey; KPMG International, 2003; PricewaterhouseCoopers, 2001, 2002). Yet, despite the costs, many MNCs continue to use long-term assignments (Cendant, 2004; Mercer Human Resource Consulting, 2003; PricewaterhouseCoopers, 2002) even when cost-effective alternatives are available. This is because the costs associated with expatriation are only one of several factors that are considered when approving international assignments (KPMG, 2004). Determining a return on investment is therefore necessary to justify the continued use of these assignments.

Despite the importance of obtaining a return on investment from long-term assignments, there are no published empirical studies examining expatriate ROI in the academic literature. Only two studies, both surveys by consulting companies, ask HR managers whether their companies estimate expatriate ROI and what HR practices may increase it (GMAC/NFTC/SHRM 2002 survey; KPMG International, 2003). Furthermore, although some past studies have empirically examined the outcomes of some relevant individual HR activities associated with expatriation, including: (1) expatriates' premature return from the assignment (Tung, 1981, 1987), (2) labour turnover rates from repatriation (Stroh, 1995), and (3) expatriate job performance (Caligiuri, 1997), the nature and meaning of expatriate ROI still remains unclear. Past studies have investigated the link of only individual HR activities in relation to the costs and benefits of long-term assignments but not the system of HR activities that may influence it.

Based on the shortcomings of the literature, the purpose of this chapter is to address the following research questions: (1) *What is expatriate ROI and how can it be defined?* (2) *What are the antecedents of expatriate ROI in terms of the HR activities that would increase or decrease ROI?* In answering these research questions, the chapter develops hypotheses as it proceeds to guide future research.

Developing a definition of expatriate ROI

Despite the importance of expatriate ROI, definitions of the term are difficult to obtain. We therefore borrow concepts and theoretical foundations from other disciplines for explanation.

Definition of key terms

Return on investment is an accounting term. In its simplest form, Flamholtz (1985) defines ROI as a financial ratio that expresses profit in direct relation to investment. Schachner (1973) further defines ROI as a profitability equation that may be used to calculate past performance (for example, earnings) or future expectations (for example, profitability of a proposed investment). However, scholars in accounting and economic theory (Abdallah and Keller, 1985; Brief and Lawson, 1992; Laitinen, 2003; Spencer, 1999) have cast doubts on the appropriateness of using only traditional accounting methods in determining ROI, because accounting measures indicate only past or future *financial* performance (defined as lagging or leading indicators of financial profitability) to the exclusion of *non-financial* performance indicators.

In the economics literature, ROI is defined within the context of economic profit (EP) (Canibano, Garcia-Ayuso, and Sanchez, 2000; Mills, Rowbotham, and Robertson, 1998). EP combines a value-based approach to measure both past (lagging) and future (leading) returns by including *financial* and *non-financial* data in the ROI calculation. EP is most commonly used in the economic equations of *shareholder value analysis* (SVA) (Rappaport, 1981) and *economic value added* (EVA) (Stewart, 1991). Both SVA and EVA calculate ROI from the perspective of overall value, where value is defined in terms of both financial and non-financial gains and losses.

In terms of defining expatriate ROI from industry surveys, the GMAC (2001) survey concluded that, at that time, there was no universally understood definition of the term. In 2002 the same survey (2002: 55) defined expatriate ROI as the 'accomplishment of the assignment objectives at the expected cost'. Yet in the GMAC (2004) survey only 10 per cent of respondents agreed that they used this definition to measure the ROI of their international assignments. The definition is therefore considered inadequate in comparison to definitions given by scholars in related fields (Canibano et al., 2000; Mills et al., 1998). As Boudreau and Ramstad (1997) asserted, the definition of expatriate costs needs to be more fully explained in terms of both the financial and non-financial gains and losses associated with HR investments. A part of any definition of expatriate ROI is whether the benefit to the MNC outweighs the costs of the international assignment (Kobrin, 1988; Sheridan, 1998).

The costs and benefits of long-term assignments

From the literature (Downes and Thomas, 1999; Dyer and Reeves, 1995; Kobrin, 1988), we conclude that developing a definition of expatriate

ROI needs to include an estimation of both the financial and non-financial costs and benefits of a specific assignment. In order to understand these costs and benefits, we adopt Williamson's (1985) transaction cost theory which focuses on the combination of: (1) transactions, (2) costs arising from transactions, and (3) the minimization of transaction costs through efficient control structures. We suggest that there are transaction costs arising over the life of the long-term assignment that may reduce ROI (Masten, Meehan, and Snyder, 1999).

With respect to non-financial costs and benefits, labour turnover during repatriation and poor cross-cultural adjustment can generate losses for an MNC. Yet, the non-financial benefits of long-term assignments can also be extensive. For example, Boyacigiller (2000) and Harzing (2001) concluded that an increase in organizational knowledge resulting from a greater knowledge of foreign markets, transfer of a firm's culture and capability, and the development of global managers were a benefit at the firm level. Downes and Thomas (1999) argued that the benefits of international assignments might be linked to a longer-term competitive advantage for MNCs, for example, by developing unique rare capacities through the international competencies of the top management team. This view is consistent with Barney's (1991) resource-based theory of the firm which emphasizes the importance of using employees as a source of competitive advantage to increase a firm's success (Lepak and Snell, 1999; Wright, Dunford, and Snell, 2001).

We therefore conclude that approaches to defining expatriate ROI should include a combination of financial and non-financial costs and benefits. We propose that expatriate return on investment be defined as a calculation in which the financial and non-financial benefits to the MNC are compared to the financial and non-financial costs of the international assignment, as appropriate to the assignment's purpose. We further propose that accurate rates of return are likely to be determined when the benefits are compared to the costs, irrespective of whether a cost is financial (for example, cross-cultural training) and the corresponding benefit is non-financial (for example, improved performance).

The importance of the purpose of the long-term assignment

One of the themes of this chapter is the importance of calculating expatriate ROI within the context of the purpose of the long-term assignment. Given that MNCs differ greatly in terms of industry, organizational culture, and overall strategic objectives (Boyacigiller, 1990; Dyer and Reeves, 1995), they will have different reasons for using expatriates. Edstrom and Galbraith (1977, 1994) argued that MNCs have three major purposes for using expatriates: (1) to fill international positions when qualified locals are not available, (2) for management development, and (3) to help control, coordinate and assist in the transfer of a firm's culture. These purposes have been more recently validated by several industry surveys in which it was found that the top six reasons for using expatriates were to: (1) fill a skills gap, (2) build management expertise, (3) launch new endeavours, (4) transfer technology, (5) enable managerial control, and (6) transfer corporate culture (Cendant, 2002; GMAC et al., 2004). We therefore contend that if the purpose of a long-term assignment is to control, coordinate, and assist in the transfer of a firm's culture, then expatriates will be selected, trained and compensated differently than if the purpose of the assignment is mostly knowledge transfer. As a result, these

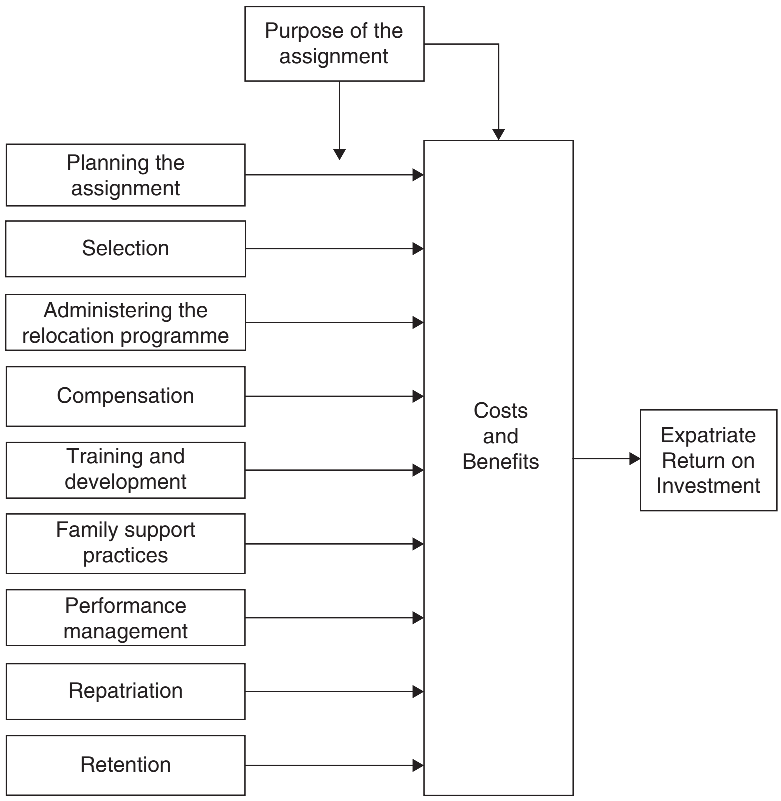

Figure 2.1: The system of human resource activities influencing expatriate ROI

differences will lead to varying rates of return from one assignment to the next, as the costs and benefits associated with each assignment's purpose are likely to be different.

Justifying our definition of expatriate ROI

Overall, we make certain justifications for the definition of expatriate ROI we propose. First, as Kamoche (1997) argued, there should be no 'one best' ROI formula. An ROI calculation will differ from one assignment to the next because the objectives of each assignment are likely to be different. Consequently, these differences in assignment objectives reduce the usefulness of a 'one best' ROI formula that expects identical costs and benefits to be calculated for every assignment. A second justification is that expatriate ROI should be calculated at different times for each international assignment. This is because, as suggested by Bonache, Brewster, and Suutari (2001) and Stroh and Caligiuri (1998), the differences in assignment purpose will not only dictate what is included in the ROI calculation, but also the most appropriate time to do the calculation. For instance, the original purpose of an international assignment may not have included ensuring that the expatriate was repatriated home. Therefore, outcomes such as successfully finding a suitable position in the company for the expatriate upon return or an increase in labour turnover resulting from unsuccessful repatriation would not be included in the ROI calculation, and the calculation could be made as soon as the assignment is completed. Third, we assert that in order to avoid a misleading ROI calculation, a longer-term perspective with regard to an assignment's purpose is necessary. This is because many of the costs and benefits associated with long-term assignments are non-financial in nature and only appear at, or after, the conclusion of an assignment. As Mills and Print (1995) pointed out, accurate calculations of ROI are less likely to be made in the short-term if the long-term benefits cannot be identified in the period during which the calculation occurs.

The antecedents of expatriate ROI: the system of human resource activities

In order to explore the antecedents of expatriate ROI in terms of HR activities, including the development of hypotheses for future testing, the first theoretical perspective to consider is *transaction cost theory* which examines, amongst other things, the influence of a system of activities taking place during all stages of a contract (Williamson, 1985; Williamson and Masten, 1999). The contract of interest for this chapter is the international assignment, which may be considered as a contract between the MNC and the expatriate. Essentially, transaction cost theory argues that contractual activities have the potential to influence costs and benefits to the firm both *ex ante* (that is, before execution of the contract) and *ex post* (that is, during execution of the contract) (Benito, Tomassen, Bonache-Perez, and Pla-Barber, 2003; Tan and Mahoney, 2003). That is, each contractual activity has the potential to increase or decrease the costs and benefits to the firm *at different times during the life of a contract*.

A second theoretical perspective to consider is *high performance work practices* (HPWP) (Becker, Huselid, Pickus, and Spratt, 1997; Huselid, 1995). HPWP are a group of HR activities which are viewed as a *system* of superior practices that can more fully explain costs and benefits to the firm than individual practices alone. Whereas we believe at this stage in the research it is premature to suggest that a group of HPWP can be developed to influence expatriate ROI, we do believe that approaching expatriate ROI from a systems perspective of HR activities would be an important step forward from the isolated perspectives used in previous studies (Caligiuri, 1997; Stroh, 1995; Tung, 1981, 1987). This is because a system of HR activities can more adequately explain what influences costs and benefits during a long-term assignment than individual activities alone; that is, a system of HR activities represents a group of interrelated practices in which one practice can potentially influence the costs or benefits to be derived from another. We therefore contend that a systems approach to expatriate ROI will enable increases and decreases in rates of return to be more accurately calculated, because, as noted by scholars, although isolated practices (for example, training and development) can improve the likelihood of assignment success, and therefore increase ROI, individual practices are less likely to be an effective substitute for the collective impact of many carefully planned HR activities operating at one time (Bennett, Aston, and Colquhoun, 2000; Farid and Buda, 1998; Huselid, 1995). Yet, empirical studies examining expatriate costs and benefits from a HR systems approach have not been done, therefore, the assumption requires testing in the following hypothesis:

> *Hypothesis 1. An expatriate ROI calculation that evaluates a system of HR activities during all stages of a long-term assignment will produce a more accurate rate of return than an expatriate ROI calculation that evaluates individual HR activities in isolation.*

Figure 2.1 illustrates our proposed system of HR activities and its hypothesized influence on overall expatriate ROI. It groups the system of HR activities occurring during all stages of a long-term assignment and connects the system to the expected costs and benefits from that assignment. The underlying concept is that the expected costs and benefits will be influenced by the system of HR activities and the purpose of the assignment. A calculation of those costs and benefits in turn will result in the ROI of the international assignment.

The antecedents of expatriate ROI: human resource practices

There are nine major HR activities taking place during a long-term assignment that potentially affect the costs or benefits that may arise from expatriation and thus cause ROI to increase or decrease. The empirical studies, reviews, and surveys of HR activities that may increase or decrease expatriate ROI are classified and listed in Table 2.1.

Planning the assignment

Scholars (Bonache et al., 2001; Dyer and Reeves, 1995) have suggested that if the purpose of an assignment has not been clearly identified, the assignment may not be able to provide clear benefits to the MNC and may result in unforeseen costs, including failure to achieve specific strategic goals (Torbiorn, 1994; Welch and Welch, 1997). Kamoche (1997) proposed that international assignments should meet clear business needs and have clear business goals in order to increase the benefits to the MNC, including improving the likelihood of assignment success. Hence, the following hypothesis is offered:

> *Hypothesis 2. Linking expatriation to careful planning of the purpose of an international assignment will increase benefits and reduce costs, and increase expatriate ROI.*

Recruitment and selection of expatriates

Scholars have argued that few companies have adequate recruitment and selection practices to support their global staffing strategies (Harvey, 1996; Porter and Tansky, 1999), which can result in significant costs to MNCs due to not meeting the purpose of the assignment. For example, Tung (1981, 1982) concluded that selecting candidates who did not demonstrate relational abilities or failing to assess a spouse's ability to adapt to a foreign environment could lead to increases in poor performance and

Table 2.1: Empirical studies, reviews and surveys of HR activities that may increase or decrease expatriate ROI

HR activity	Variable(s) influencing ROI	Study
Planning the assignment	Identifying the purpose of an assignment	Dyer and Reeves (1995) Kamoche (1997) Welch and Welch (1997)
Selection	Recruiting suitable candidate(s)	Farid and Buda (1998) Porter and Tansky (1999)
Administering the relocation programme	Outsourcing expatriate administration	KPMG (2004) SHRM (2004)
Compensation	Linking compensation to assignment objectives	Bonache and Fernandez (1997) Fish and Wood (1996) Gomez-Mejia (1993) Gomez-Mejia and Welbourne (1991) Harvey (1993) Stone (1995)
Training and development	Customizing training and development to needs of assignment	Caligiuri, Phillips, Lazarova, Tarique, and Burgi (2001) Eschbach, Parker, and Stoeberl (2001) Shaffer and Harrison (1998) Tung (1982) Vance and Paik (2002)
Family support practices	Providing family support to increase assignment success	Black and Gregersen (1991) Harvey (1985) KPMG (2003) Pricewaterhouse Coopers (2000) Shaffer, Harrison, Gilley, and Luk (2001)
Performance management	Customizing appraisals according to the assignment's purpose	Gregersen, Hite, and Black (1996) Hendry, Woodward, Bradley, and Perkins (2000) Milliman, Nason, Zhu, and De Cieri (2002)

(*Continued*)

Table 2.1: (*Continued*)

HR activity	Variable(s) influencing ROI	Study
	Conducting appraisals during an assignment	Schuler, Fulkerson, and Dowling (1991) Tahvanainen (2000)
Repatriation	Planning expatriate re-entry appropriate to an assignment's purpose	GMAC (2004) Gregersen and Black (1995) Lazarova and Caligiuri (2001)
Retention	Maintaining functional turnover and functional retention appropriate to an assignment's purpose	Black, Gregersen, and Mendenhall (1992) McEvoy and Cascio (1987) Stroh (1995)

assignment failure, thereby increasing costs and reducing benefits. Hence, the following hypothesis is offered:

> *Hypothesis 3. Developing recruitment and selection practices that meet the assignment's planned objectives and which result in an appropriate expatriate being selected for the assignment's purpose will increase benefits and reduce costs, and increase expatriate ROI.*

Administering the relocation programme

It is estimated that administering a relocation programme can cost approximately US$200,000 (Van Pelt and Wolniansky, 1990). To reduce some of these costs many MNCs outsource the administration of the relocation programme (for example, relocation of household goods) to independent specialists as a way to: (1) ensure greater cost savings, (2) gain access to vendor expertise the MNC could not otherwise provide, and (3) allow the MNC to focus on its core business (KPMG, 2004; GMAC/NFTC/SHRM 2002 survey). However, whereas one survey (GMAC/NFTC/SHRM 2002 survey) reported that 56 per cent of respondents used outsourcing to specifically save money and reduce operating costs, it also reported that less than 30 per cent chose to outsource employee relocation, and less than 10 per cent chose to outsource expatriate administration. In light of the above, to the authors' knowledge there has been no empirical work investigating the costs associated with administering either a relocation programme or its impact on ROI. Hence, the following hypothesis is offered:

Hypothesis 4. Outsourcing expatriate administration will allow HR staff to focus more on expatriate strategy which will increase benefits and decrease costs, and increase expatriate ROI.

Compensation

Expatriate compensation includes base salary, mobility premiums, and hardship allowances (Mercer, 2001) and is a financial cost in expatriation that influences ROI. To avoid some of these costs, many MNC's use standardized compensation packages because they are less costly to administer and control, and give the perception of equity amongst international assignees, thereby reducing the costs associated with unplanned labour turnover (Harvey, 1993; Stone, 1995). But scholars have argued that standardized compensation packages do not take into account differences in assignment objectives or cultural conditions, where expatriate compensation and reward systems are often a critical factor in motivating expatriates to not only accept assignments, but to also perform in difficult locations (Bonache and Fernandez, 1997; Gomez-Mejia and Welbourne, 1991).

Yet, the costs associated with compensation are often outweighed by the benefits, particularly when compensation is linked to the purpose of the assignment, which then result in improvements in organizational performance (Fish and Wood, 1996; Gomez-Mejia, 1993). Hence, the following hypothesis is offered:

Hypothesis 5. Linking expatriate compensation packages to facilitate meeting the purposes of the international assignment will increase benefits, and increase expatriate ROI.

Training and development

The training and development of expatriates involves cross-cultural preparation and language programmes appropriate to the assignment's location (Black and Gregersen, 1991; Forster, 2000), and represents a significant financial cost to MNCs in the initial stages of expatriation. In contrast to the costs, there are also significant benefits to be gained from training in terms of better performance and cultural adjustment (Eschbach, Parker, and Stoeberl, 2001; Tan and Mahoney, 2003). Shaffer et al. (2001) found that pre-departure training (particularly language training) had a positive impact on expatriate and spousal adjustment, which in turn led to improved performance. Some scholars have suggested that training and development programmes that are customized according to an expatriate's past international experience, the assignment's objectives, the intended location, and the needs of the relocating family, are likely to be more effective than generic training and development programmes (Bennett et al., 2000; Caligiuri et al., 2001; Tahvanainen, 2000; Vance and Paik, 2002). Hence, the following hypothesis is offered:

> *Hypothesis 6. Providing expatriates with training and development appropriate to the international assignment will increase benefits and reduce costs, and increase expatriate ROI.*

Family support practices

Scholars have found that family support practices are often critical during expatriation in order to facilitate the achievement of an assignment's objectives (Caligiuri, 1997; Harvey, 1985; Shaffer et al., 2001; Tung, 1987), which in turn increases benefits and decreases costs. A number of industry surveys (GMAC/NFTC/SHRM 2002; KPMG International, 2003; Pricewater houseCoopers, 2000) have reported that lack of family support, in terms of spousal adjustment and the dual-career issue, was the most common reason for assignment failure and increases in assignment costs. Black and Gregersen (1991) concluded that when MNCs failed to facilitate an expatriate spouse's general adjustment, increases in failed assignments were likely to occur. Hence, the following hypothesis is offered:

> *Hypothesis 7. Providing support to the expatriate family will increase the likelihood of assignment success which will increase benefits and reduce costs, and increase expatriate ROI.*

Performance management

Performance management can influence expatriate ROI in two ways. First, it can decrease costs and increase ROI when it is conducted *during an assignment* by: (1) providing MNCs with the ability to assess whether the objectives of an assignment are likely to be met, (2) providing MNCs with an opportunity to address problems before they result in assignment failure, and (3) providing insights into the effectiveness of other HR activities, including training needs and the appropriateness of reward systems and compensation packages, that may be affecting performance (Brewster and Scullion, 1997; Schuler, Fulkerson, and Dowling, 1991; Tahvanainen, 2000). When MNCs are able to monitor their strategic progress *during the assignment* they are able to address issues before the achievement of an assignment's objectives are jeopardized.

Second, performance management can decrease costs and increase ROI when appraisals are *customized*, because customized appraisals can account for differences in an assignment's purpose and the different types of jobs being performed (Gregersen, Hite, and Black, 1996; Hendry, Woodward, Bradley, and Perkins, 2000; Milliman, Nason, Zhu, and De Cieri, 2002). The result is that MNCs will improve employee motivation because performance can be linked to incentive systems, such as compensation and promotion, that are appropriate to the job being performed and the location it is being performed in (Huselid, 1995). The following hypothesis is therefore offered:

> *Hypothesis 8. Customized performance management practices that are linked to an assignment's objectives and that are conducted during all stages of an assignment will increase benefits and reduce costs, and increase expatriate ROI.*

Repatriation

Successful repatriation is a potentially critical component in the ROI calculation for two reasons. First, repatriation can deliver considerable benefits to an MNC which, if lost, can significantly affect ROI. For example, scholars (Erdener and Torbiorn, 1999; Gregersen and Black, 1995; Lazarova and Caligiuri, 2001; Stroh, 1995) have argued that repatriated staff can improve strategic capabilities when their international knowledge and expertise is leveraged during repatriation. As a result, MNCs long-term strategic capabilities can be improved, and ROI can be expected to increase. Second, if the purpose of an assignment does not include a repatriation strategy, then any cost and benefit outcomes to be expected from repatriation (for example, the integration, or lack thereof, of intellectual knowledge gained from the assignment) are not likely to impact expatriate ROI. This is because if successful repatriation home is not part of an assignment's objectives, then the activity should not be included in the ROI calculation. To do so would be misleading in terms of the final ROI outcome.

This highlights the importance of context with regard to an assignment's purpose in terms of expatriate ROI; that is, not every HR activity is appropriate to every long-term assignment, nor should every HR activity be automatically included in the ROI calculation. The importance of context also highlights why customizing the ROI calculation for each assignment, rather than applying a standardized formula which expects identical costs and benefits to be calculated across the board, is essential. Consequently, careful consideration as to the inclusion, or exclusion, of repatriation is important to the expatriate ROI calculation. The following hypothesis is therefore offered:

> *Hypothesis 9. Planning and managing repatriation as appropriate to an assignment's purpose will increase benefits and decrease costs, and increase expatriate ROI.*

Retention

Finally, when all is said and done, if a system of HR activities is perfectly managed yet an MNC is unable to retain the talent in which it has invested a considerable amount of time, money and effort, then ineffective retention practices can be a costly factor in the ROI calculation. For example, Stroh (1995) concluded that the turnover of expatriate staff after repatriation incurs an obvious cost to MNCs when the loss is *unexpected* and an MNC loses key employees considered pivotal to achieving its long-term strategic objectives. However, the unexpected turnover of expatriates *during* an assignment (for example, due to early withdrawals and premature returns) can be equally as costly (GMAC/NFTC/SHRM 2002 survey; Shaffer and Harrison, 1998; Tung, 1988). All can impact returns on investment considerably.

To highlight the significance of retention and its potential impact on ROI, two factors with regard to costs must be considered. First, retention statistics must be interpreted correctly; that is, expatriate retention and the costs associated with it should be defined within the context of the risks associated with losing only *high* performers (Abelson and Baysinger, 1984; Black, Gregersen, and Mendenhall, 1992), whose retention is a specific objective of an international assignment. This is because when poor performers leave an organization, labour turnover may not always be unwelcome or as costly. As such, expatriate retention needs to be approached as a carefully managed combination of functional retention and functional turnover, in which high performers are retained and low performers are lost, as part of a larger strategic plan (Black et al., 1992; McEvoy and Cascio, 1987). Second, when an MNC unexpectedly loses key talent, and in particular those employees upon which it was intending to build the firm's international competencies, labour turnover in these circumstances can be devastating and very costly (O'Connor, 2002). Hence, the following hypothesis is offered:

> *Hypothesis 10. Maintaining functional retention and functional turnover of the expatriate as appropriate to an assignment's purpose will increase benefits and decrease costs, and increase expatriate ROI.*

Discussion

We contend that expatriate ROI is a complex phenomenon requiring careful examination on many levels in order to produce a calculation that has a meaningful rate of return. Expatriate ROI can therefore be explained by four inter-related approaches. First, it must contain a summary of costs and benefits incurred during a long-term international assignment, and these costs and benefits must be defined both financially (for example, the cost of pre-departure training, processing of immigration documents, or the sales revenue of a particular business unit) and non-financially (for example, the development of global leadership talent, or the transfer of technical knowledge). Second, the costs and benefits of a long-term assignment must always be defined within the context of the purpose of the assignment itself. For example, if an assignment is designated as a one-way transfer for which no post-assignment job guarantees are offered, then the inclusion of any repatriation-related outcomes (such as labour turnover) is not relevant to the expatriate ROI calculation for that assignment. Third, the compilation of costs and benefits data must be approached from a systems perspective which avoids investigating only individual costs and benefits at one point in time (for example, training costs during pre-departure preparation) to the exclusion of a system of HR activities occurring during the entire assignment (for example, the combined effects of expatriate selection, remuneration, repatriation, and retention). Finally, expatriate ROI must be calculated at a time that is appropriate to meeting the assignment's objectives, for example, at the immediate conclusion of an assignment or at some point during repatriation. Determining when to calculate expatriate ROI depends upon the specific purpose of the assignment and requires that a long-term, rather than short-term, view be adopted. This is because costs incurred at the start of an assignment may not be able to be matched to a corresponding benefit until the completion of the assignment years later. The timing of the calculation therefore remains an important step that can help avoid a rate of return that is misleading or incorrect.

Given our explanation of what expatriate ROI is, we argue that expatriate ROI must therefore be defined as a calculation in which the financial and non-financial benefits to the MNC are compared to the financial and non-financial costs of the international assignment, as appropriate to the assignment's purpose. We further contend that accurate rates of return will only be achieved when the benefits are compared to the costs, irrespective of whether a cost is financial (for example, cross-cultural training) and the corresponding benefit is non-financial (for example, improved performance).

Our analysis of the literature thus far has highlighted that the importance of an expatriate ROI calculation is not just in determining the rate of return (as outlined in research question one), but also in understanding why rates of return increase and decrease; that is, what are the antecedents of expatriate ROI? As we have acknowledged, the antecedents of expatriate ROI are, in fact, not new. Many of them have been identified in prior research (as outlined in Table 2.1) and include planning, selection, administering the relocation programme, training and development, compensation, family support, performance management, repatriation, and retention. Yet what is new is the way in which we propose these antecedents be incorporated into expatriate ROI calculations. Therefore, whereas we acknowledge that each individual antecedent has the potential to increase or decrease ROI on its own, as identified in prior research, we contend that understanding the inter-relationship of these antecedents with each other (from a systems perspective which we have adopted in this chapter) will produce a more accurate and useful ROI calculation in the long-term. We therefore believe that identifying and understanding these antecedents is a key step to undertaking ROI calculations because: (1) they can enable more appropriate and relevant costs and benefits data to be compiled for each assignment, thereby improving the accuracy of ROI calculations, and (2) they can give scholars and practitioners greater insight into, and the ability to manage, the HR activities occurring during an assignment that have the potential to affect ROI at the conclusion of an assignment. Of course, these antecedents must only be included in an ROI calculation if they can be linked to the purpose of an assignment (for example, repatriation-related outcomes) and if they occurred during an assignment (for example, labour turnover).

Conclusion

We recommend that expatriate ROI requires a four-step approach: (1) identifying financial and non-financial costs and benefits; (2) linking the costs and benefits to the purpose of the long-term assignment; (3) identifying the appropriate antecedents from a systems perspective; and (4) conducting the calculation at an appropriate time within the context of the assignment's purpose.

Expatriate return on investment is undoubtedly an important topic, as evidenced by the considerable efforts of MNCs to find cost-reducing alternatives to long-term international assignments. Yet no empirical studies have investigated expatriate ROI. With this in mind, we have approached our initial investigation of this topic with thoroughness and caution in order to be absolutely certain that we have considered all possible explanations for understanding the phenomenon. We have adopted a multi-disciplinary perspective to assist in developing a sound theoretical foundation about what expatriate ROI really is, and we have argued and justified, through an extensive review of the academic literature, the relevant and important points that should help us to not only define expatriate ROI but also to understand its antecedents.

Yet it must be said that in this chapter we have proposed only one methodological approach to calculating expatriate ROI, which now requires testing. But there can be other approaches. We therefore encourage future research to use the approach proposed here as a starting point from which to refine our initial investigation and to extend the theoretical foundation. We also suggest that future research consider applying our approach to other types of assignments (for example, short-term assignments), including domestic relocations. In doing so we believe that scholars and practitioners alike will be better equipped to deal with not only the increasing demands of a more globalized workforce, but also the needs of HR managers who must continue to justify their international mobility programmes to senior management.

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